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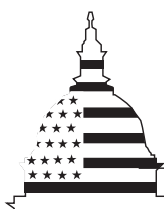
Report to the Chairman, Committee on  
Armed Services, House of  
Representatives

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January 2001

# NATIONAL DEFENSE STOCKPILE

## Improved Financial Plan Needed to Enhance Decision-making



G A O

Accountability \* Integrity \* Reliability

<b>Report Date</b> ("DD MON YYYY") 00JAN2001	<b>Report Type</b> N/A	<b>Dates Covered (from... to)</b> ("DD MON YYYY")
<b>Title and Subtitle</b> NATIONAL DEFENSE STOCKPILE Improved Financial Plan Needed to Enhance Decision-making		<b>Contract or Grant Number</b>
		<b>Program Element Number</b>
<b>Authors</b>		<b>Project Number</b>
		<b>Task Number</b>
		<b>Work Unit Number</b>
<b>Performing Organization Name(s) and Address(es)</b> General Accounting Office Washington, DC 20013		<b>Performing Organization Number(s)</b> GAO-01-17
<b>Sponsoring/Monitoring Agency Name(s) and Address(es)</b>		<b>Monitoring Agency Acronym</b>
		<b>Monitoring Agency Report Number(s)</b>
<b>Distribution/Availability Statement</b> Approved for public release, distribution unlimited		
<b>Supplementary Notes</b>		
<b>Abstract</b> The National Defense Stockpile is composed of strategic and critical materials that can be used in times of national emergency. The stockpile was established to minimize dependence on foreign sources of these materials. Because of changes in mobilization planning and modernization of weapon systems, stockpiling requirements for numerous materials have been reduced dramatically in the past two decades, with only a few materials still being required. The reported value of stockpile inventories on hand has also decreased through annually authorized sales of excess stockpile materials, from about \$10.1 billion in fiscal year 1987 to about \$3.4 billion as of September 30, 1999.		
<b>Subject Terms</b>		
<b>Document Classification</b> unclassified		<b>Classification of SF298</b> unclassified
<b>Classification of Abstract</b> unclassified		<b>Limitation of Abstract</b> unlimited
<b>Number of Pages</b> 26		





United States General Accounting Office  
Washington, D.C. 20548

January 26, 2001

The Honorable Bob Stump  
Chairman, Committee on Armed Services  
House of Representatives

Dear Mr. Chairman:

The National Defense Stockpile is composed of strategic and critical materials that can be used in times of national emergency. The stockpile was established to minimize dependence on foreign sources of these materials. Because of changes in mobilization planning and modernization of weapon systems, stockpiling requirements for numerous materials have been reduced dramatically in the past two decades, with only a few materials still being required. The reported value of stockpile inventories on hand has also decreased through annually authorized sales of excess stockpile materials, from about \$10.1 billion in fiscal year 1987 to about \$3.4 billion as of September 30, 1999.

The Defense Logistics Agency's Defense National Stockpile Center manages the stockpile program and is responsible for the sale of materials that exceed stockpile requirements. The Center deposits collections from gross sales of stockpile materials to a U.S. Treasury transaction fund. The transaction fund is used for various purposes, including outlays to pay for stockpile operations. The Congress has also mandated transfers from the fund to Defense and other federal programs.

The late Chairman, Subcommittee on Military Readiness, Representative Herbert H. Bateman, noting that collections from sales of stockpile materials can be transferred to other programs, expressed concern about whether sufficient funds will likely be available in the future for effective management of the stockpile. Our August 20, 1999, report<sup>1</sup> provided initial information on projected stockpile gross sales from fiscal year 1999 through 2010 as well as on corresponding projections for remaining inventory.

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<sup>1</sup>*National Defense Stockpile: Sales Revenue and Inventory Data* (GAO/NSIAD-99-201R, Aug. 20, 1999).

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As agreed with your office, this report addresses whether existing cash balances and projected collections from stockpile gross sales will be sufficient to meet all expected stockpile transaction fund outlays for fiscal years 2000-2010.

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## Results in Brief

The National Defense Stockpile transaction fund's projected long-term outlays exceed projected collections from gross sales. Projections do not include all likely outlays, so the timing and size of a gap between available funds and outlays is unclear. The Center has a long-range financial plan in which projected collections through fiscal year 2003 may reasonably be expected to meet its projected outlays, including costs of operations and currently projected transfers to other federal programs. After that, the fund's cash balance will offset shortfalls during fiscal years 2004-2009, but the plan projects a negative cash balance of \$48 million in fiscal year 2010. The cash may run out sooner because the Center's financial plans do not include all environmental costs to dispose of hazardous materials or clean up storage sites.<sup>2</sup> For example, the Center is reasonably certain it will have to pay an additional \$80 million in disposal costs that are not included in the current plan. The cash projections in the financial plans may also be affected if (1) commodity prices increase or decrease or (2) the fund is required to pay for additional probable<sup>3</sup> environmental cleanup costs that may be identified through ongoing or future studies.

Complete information is essential for decision-making regarding the use of funds in the stockpile transaction fund. Consequently, we recommend that the Administrator of the Defense National Stockpile Center revise the Center's long-range plan to reflect all probable and measurable outlays to aid decision-making and oversight of stockpile operations. The Department of Defense agreed with our recommendation, stating that the long-range plan will be revised as recommended.

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<sup>2</sup>Department of Defense 7000.14-R, Department of Defense Financial Management Regulation, Volume 6B, *Form and Content of the Department of Defense Audited Financial Statements*, December 1998, requires the Defense Logistics Agency to report estimated environmental cleanup and disposal costs.

<sup>3</sup> Statement of Federal Financial Accounting Standards No. 5, *Accounting for Liabilities of the Federal Government*, defines "probable" as that which can reasonably be expected or is believed to be more likely than not on the basis of available evidence or logic.

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## Background

The stockpile program was established under the Strategic and Critical Materials Stock Piling Act<sup>4</sup> to maintain and manage strategic and critical materials for use during a national emergency.<sup>5</sup> The stockpile's operating funding limits and transaction fund transfers have been authorized annually in national defense authorization acts.<sup>6</sup>

The stockpiling act established a separate fund in the Treasury called the National Defense Stockpile Transaction Fund.<sup>7</sup> The transaction fund is available, subject to limitations in the appropriation acts, to fund expenses associated with the operation of the stockpile, including payroll, storage, disposal of hazardous materials, and environmental restoration. The fund is also used for congressionally mandated transfers to other government departments, such as the general fund of the Department of the Treasury, the Department of Health and Human Services, and the military services within the Department of Defense.

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<sup>4</sup>50 U.S.C. §98 et seq.

<sup>5</sup> The reported value of these requirements has decreased from about \$16 billion in the 1980s to about \$6 million in fiscal year 1999. Most of the current requirements value is for beryllium, a metal used in nuclear reactors and various defense weapons.

<sup>6</sup>The authorization covering fiscal year 2000 was the National Defense Authorization Act for Fiscal Year 2000 (P.L. 106-65).

<sup>7</sup>50 U.S.C. §98h.

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The President has delegated authority for management of the operational aspects of the National Defense Stockpile to the Secretary of Defense.<sup>8</sup> The Defense Logistics Agency assigned responsibility to its Defense National Stockpile Center. As of September 30, 1999, the Center managed 69 sites (10 staffed and 59 unstaffed satellite stockpile sites). Some sites are located on property owned by the military services or the General Services Administration and some are leased from the private sector. As of September 30, 1999, the Center stored 77 types of materials with a reported market value of about \$3.4 billion.<sup>9</sup>

In 1997, the Department of Defense declared 99 percent of the National Defense Stockpile's reported material value as excess material. The Center established a long-range plan to vacate 66 sites, reduce staffing, sell most of the excess materials, and transfer Center functions to another as yet unidentified entity.

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## The Gap Between Projected Collections and Outlays Is Greater Than Reported

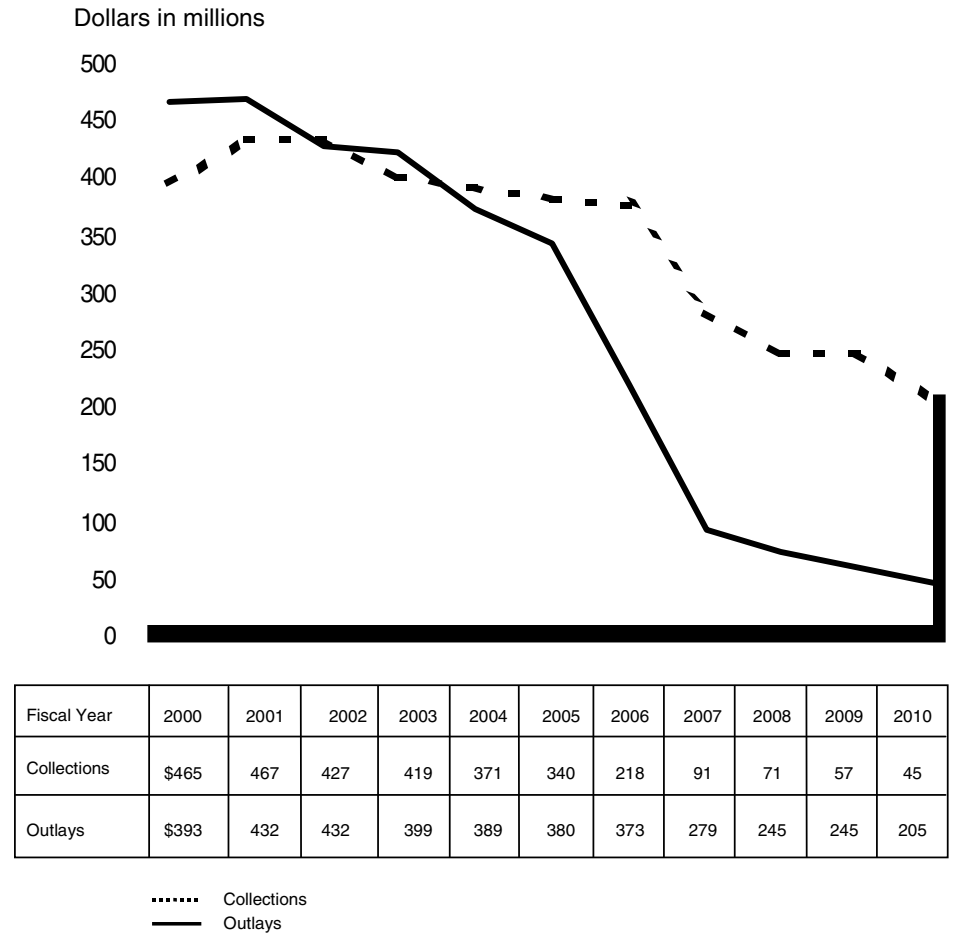
Defense National Stockpile Center projections indicate that collections from gross sales during fiscal years 2000-2003 will generally meet or exceed planned Center expenditures, including operating costs and planned transfers. However, as shown in figure 1, total expected outlays will exceed collections beginning in fiscal year 2004.

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<sup>8</sup>Executive Order 12626 (Feb. 25, 1988).

<sup>9</sup>According to the Defense National Stockpile Center, this value is based on September 30, 1999, prices at which comparable materials were being traded. In the absence of current trading data, market values are estimated. Unaudited stockpile financial statements for fiscal year 1999 reported inventory and related property of about \$2.8 billion on a historical cost basis (acquisition plus fees) and \$3.5 billion at market value. According to stockpile staff, the difference in estimated market values and the fiscal year 1999 financial statements occurred because the financial statement disclosure of market value was based on March 31, 1999, prices and the market value was based on September 30, 1999, data.

**Figure 1: Projected Collections and Outlays for Fiscal Years 2000-2010**



Source: Defense National Stockpile Center.

The total outlays of \$3.77 billion during fiscal years 2000-2010 include an estimated \$670 million for stockpile operations and about \$3.1 billion to be transferred to other agencies. Of the amount to be transferred to other agencies, \$1.65 billion is for the military services and is authorized annually. Other transfers, such as transfers to the Department of Health and Human Services, have been mandated under law to occur over future years.<sup>10</sup> These outlays of \$3.77 billion exceed the sum of (1) the projected cash

<sup>10</sup> P.L.105-261 §3303.

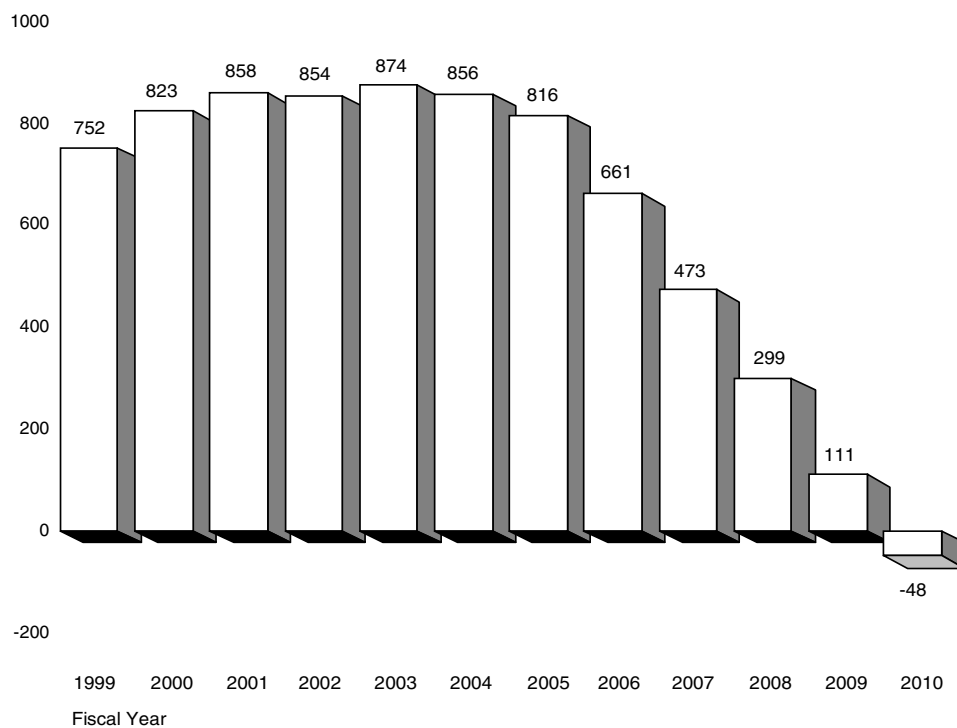


balance of \$752 million in the transaction fund plus (2) the estimated collections (\$2.97 billion), thus resulting in a \$48-million shortfall in fiscal year 2010.

Figure 2 shows an expected significant drop in the transaction fund balance after fiscal year 2004 and, by fiscal year 2010, the Center projects a shortfall of about \$48 million.

**Figure 2: Projected Ending Balances of the Stockpile Transaction Fund for Fiscal Years 1999-2010**

Dollars in millions



Source: Defense National Stockpile Center.

Appendix I provides details on projected sales revenues, inventory values, cash collections, outlays, and remaining cash balances.

Environmental outlays will further reduce transaction fund balances. Outlays for stockpile operations in the Center's projections include some outlays related to compliance with environmental laws and cleanup of

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contamination resulting from past operations. These outlays have been a relatively small part of the stockpile's annual operating budget: \$3.6 million out of the \$74.2 million budgeted in fiscal year 2000. However, the Center's projected environmental compliance outlays for fiscal years 2001-2010 do not include \$80 million of estimated disposal outlays that the Center is likely to incur. Specifically, the Center estimated disposal outlays of \$40 million to convert its inventory of thorium nitrate to thorium oxide and another \$20 million for disposal of the thorium oxide (if it cannot be sold). It also estimated \$20 million to repackage and store mercury. However, according to Center officials, these compliance outlays have not been included in the Center's transaction fund cash flow projections because of uncertainty about the value and the timing of these actions.

The Department of Defense Financial Management Regulation<sup>11</sup> requires that the Defense Logistics Agency estimate and report the cost to clean up and dispose of hazardous material resulting from its prior and current operations. The Department of Defense criteria cite the requirements contained in the Statements of Federal Accounting Standards. Specifically the Federal Financial Accounting Standards<sup>12</sup> require the estimated costs of environmental cleanup and disposal to be reported if it is probable and measurable. These costs would also be useful in the Center's long-range financial plan.

In addition, the transaction fund's outlays for environmental cleanup could increase further because the Department has not yet fully assessed environmental damage at some or all of the 47 active stockpile sites that have stored hazardous material. Consequently, the Department has only partially estimated the likely environmental cleanup costs and has not determined the share of these costs that will be paid by the transaction fund. The Department identified some environmental cleanup costs in its annual cleanup report to the Congress for fiscal year 1999, which contained cleanup costs of \$83.5 million for 15 of the sites. However, assessments at these sites are preliminary and could change, and they must be supplemented by assessments at the other 32 active stockpile sites that have stored hazardous materials. Figure 3, which is based on the Center's

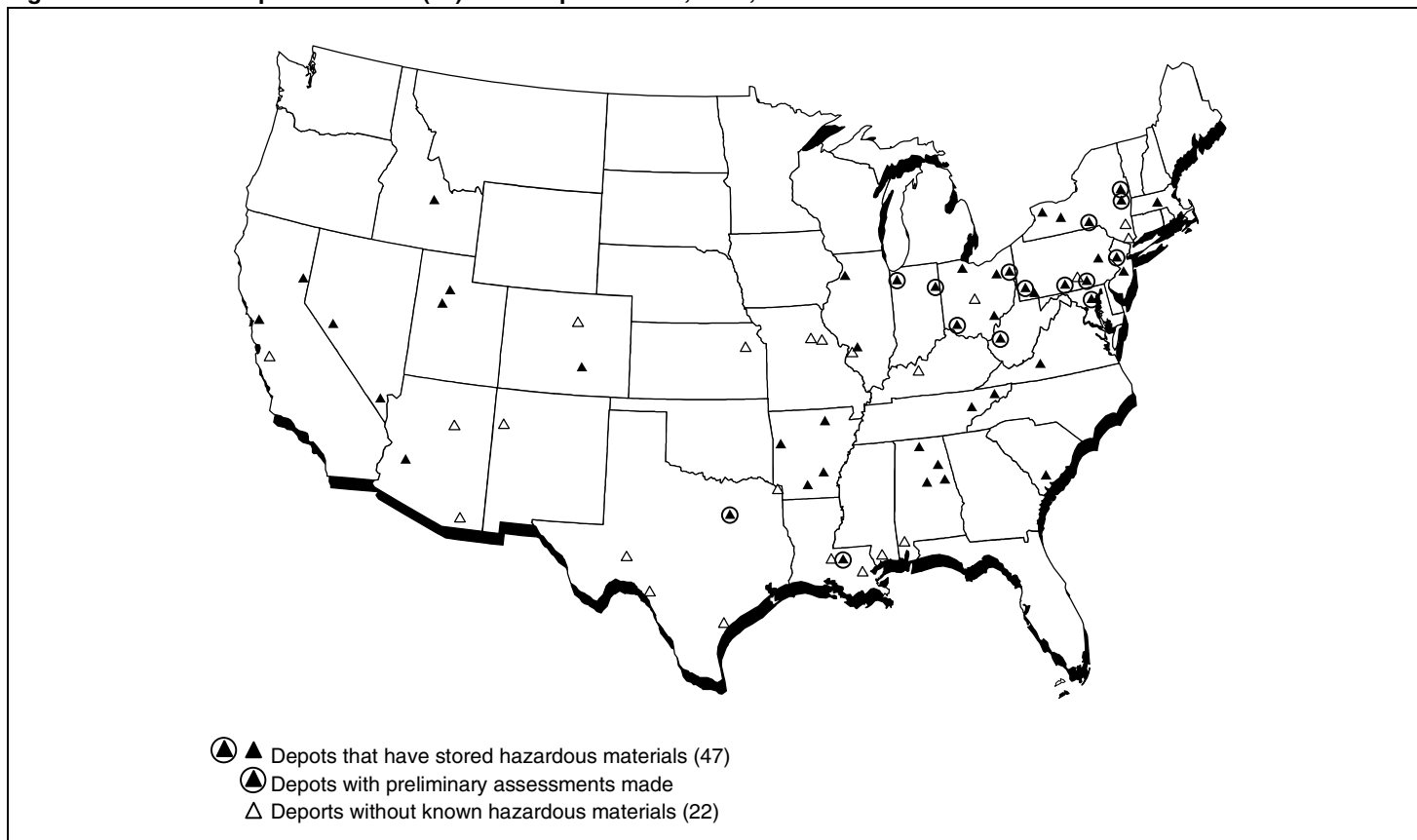
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<sup>11</sup> DOD 7000.14-R.

<sup>12</sup> Statement of Federal Financial Accounting Standards No.5, *Accounting for Liabilities of the Federal Government*, Feb. 28, 1997, and No.6, *Accounting for Property, Plant, and Equipment*, Feb. 28, 1997.

most recent data, shows the 69 current active stockpile locations, including the 47 that have stored hazardous materials.

**Figure 3: Active Stockpile Locations (69) as of September 30, 1999, That Have Nonhazardous and Hazardous Materials**



Source: Defense National Stockpile Center.

According to Center officials, it is probable that the Center will have to fund at least some of these environmental cleanup costs. The Department has an environmental restoration account for each service and the Defense Logistics Agency that may be used for cleanup of old contamination from hazardous materials (including studies) at its facilities, including Department of Defense stockpile sites. Center officials expect that the environmental restoration accounts will fund some cleanup at stockpile sites. However, according to Center officials, many costs cannot be funded by the environmental restoration accounts because legislation and

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implementing policy limit types of activities that can be funded. Examples of potential costs that may not be covered by the accounts include

- tearing down buildings, such as at Curtis Bay, Maryland, when thorium is disposed of;
- cleaning up contaminated soil under current stockpiles of hazardous materials when the sites are closed;
- drilling monitoring wells and maintaining such wells to ensure compliance with the Clean Water Act; and
- disposing of hazardous materials found during a closure of a site (as occurred when lead-contaminated soils were found during investigations of a stockpile in Louisiana).

The stockpile fund may have to fund some of these types of activities, but these costs are not included in the Center's transaction cash flow projections.

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## Conclusions

The Center's projections show that stockpile fund outlays will exceed expected collections from sales revenues beginning in fiscal year 2004, and its cash reserves are estimated to be depleted in fiscal year 2010. In addition, the Center's financial projections do not include a likely \$80 million in environmental liabilities, and additional funding may be needed for future stockpile closure and cleanup activities. Consequently, decision-makers do not have a clear financial picture of potential stockpile operations costs and of funds that might be available for other purposes.

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## Recommendation for Executive Action

In order to assist decision-making regarding the use of funds in the transaction fund, we recommend that the Administrator of the Defense National Stockpile Center prepare a revised long-range financial plan that reflects all probable and reasonably measurable stockpile outlays for the disposal of hazardous materials and environmental cleanup. This plan should include the currently known probable costs and include goals and milestones for finalizing studies to determine probable costs for all other stockpile sites.

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## Agency Comments and Our Evaluation

In written comments on a draft of this report, the Department of Defense concurred with our recommendation, stating that the long-range plan will be revised as recommended. The Department's comments are reprinted in

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appendix II. The Department also provided technical comments on our report, which we have incorporated as appropriate.

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## Scope and Methodology

To determine whether stockpile collections from sales will meet all expected outlays, we obtained and analyzed information on projected stockpile gross sales, cash collections, outlays (including payments for operations and transfers), and remaining cash balances from Center officials. We also examined documents such as inventory records and environmental reports. We interviewed appropriate officials at the Defense National Stockpile Center.

We used the Center's projections for gross sales, collections, and inventory balances for fiscal years 1999-2010. The basis of these projections were inventory balances as of September 30, 1999, as reported in the Center's fiscal year 1999 stockpile report to the Congress. Actual data for later periods was not available at the time of our review. The Center will recompute the projections when actual data becomes available.

We did work at 13 active stockpile sites at Curtis Bay, Maryland; Clearfield, Utah; Arco, Idaho; Denver Federal Center, Colorado; Northgate, Colorado; Pueblo Army Depot, Colorado; Granite City, Illinois; Hammond, Indiana; Marietta, Pennsylvania; Warren, Ohio; Scotia, New York; Ravenna, Ohio; and Somerville, New Jersey. We observed the physical stockpiles and obtained information on the nature of related activities at these locations.

The Center's estimates for fiscal years 2000 through 2010 are in current September 30, 1999, dollars. The Center's projected sales of commodities were calculated using the past 3-year average unit price. For stockpile items that have not been sold by the Center in the past 3 years, the Center used the current market price. We did not evaluate the methodology used by the Center to make projections. Also, the Department of Defense's Inspector General did not audit the stockpile transaction fund financial statements for fiscal year 1999 because the stockpile funds are not considered material.<sup>13</sup>

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<sup>13</sup>The Department of Defense's consolidated financial statements are prepared under the requirements of the Chief Financial Officers Act of 1990 (P.L.101-576), as amended by the Government Management Reform Act of 1994 (P.L.103-356).

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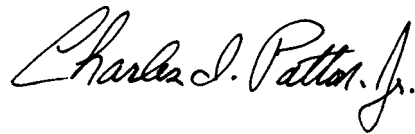
We conducted our review from September 1999 through November 2000 in accordance with generally accepted government auditing standards.

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As arranged with your office, we plan no further distribution of this report until 30 days from its issue date, unless you publicly announce the its contents earlier. We will send copies to the Honorable Donald Rumsfeld, Secretary of Defense; the Honorable Mitch Daniels, Director, Office of Management and Budget; Lieutenant General Henry T. Glisson, Director, Defense Logistics Agency; and other interested parties.

Please contact me on (202) 512-8412 if you have any questions about this report. Major contributors to this report were Uldis Adamsons, Fred Lundgren, Leo Clarke III, Dianne Guensberg, and David Merrill.

Sincerely yours,

A handwritten signature in black ink that reads "Charles I. Patton, Jr." The signature is written in a cursive style with a large, stylized "C" and "P".

Charles I. Patton, Jr., Director  
Defense Capabilities and Management

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# National Defense Stockpile Projected Cash Collections, Inventory, Uses of Funds, and Remaining Cash Balances

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The Defense National Stockpile Center provided background information on the National Defense Stockpile, including its establishment, purpose, and authorization. The Center also provided data on the projected stockpile inventory through fiscal year 2010, which shows the inventory declining from about \$3.4 billion to about \$0.5 billion by fiscal year 2010. The Center projects that for fiscal years 2000-2010 about \$3.77 billion will be needed for outlays, of which about 82 percent will be for transfers to other programs, including transfers to the military services, Health and Human Services, and the Treasury. About 18 percent will be needed for stockpile operations. The Center projects that the stockpile transaction fund will show a shortfall of \$48 million in fiscal year 2010.

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## Background on the Stockpile Program

The stockpile program was established under the Strategic and Critical Materials Stock Piling Act to maintain and manage strategic and critical materials for use during a period of national emergency. The stockpile's operating funding limits and transaction fund transfers are authorized each year by the national defense authorization acts.<sup>1</sup>

The stockpiling act established a separate fund in the Treasury called the National Defense Stockpile Transaction Fund. The transaction fund is available, subject to limitations in the appropriation acts, for the operation of the stockpile, including payroll, storage, disposal of hazardous materials, and environmental restoration.

In 1997, the Department of Defense declared 99 percent of the National Defense Stockpile excess. The Center established a long-range plan to vacate 66 sites, reduce depot staffing, sell most of the excess materials, and transfer Center functions to another Defense entity.

The Center makes annual long-term estimates of its sales, cash collections, outlays, and inventory status. The current long-range estimate, used as a source of information for this report, was made in the spring of 2000. Factors that could have a significant impact on the Center's projections include changes in commodity prices, changes to or new mandated transfers, and changes to sales plans due to recommendations by the stockpile advisory committee (Market Impact Committee), which advises

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<sup>1</sup>The authorization for fiscal year 2000 was the National Defense Authorization Act for Fiscal Year 2000 (P.L. 106-65).

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the stockpile manager on projected domestic and foreign economic effects of acquisitions and disposals.

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## Projected Stockpile Inventory

Figure 4 shows the Center's projections of remaining stockpile inventory through fiscal year 2010.<sup>2</sup>

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<sup>2</sup>*National Defense Stockpile: Sales Revenue and Inventory Data* (GAO/NSIAD-99-201R, Aug. 20, 1999).



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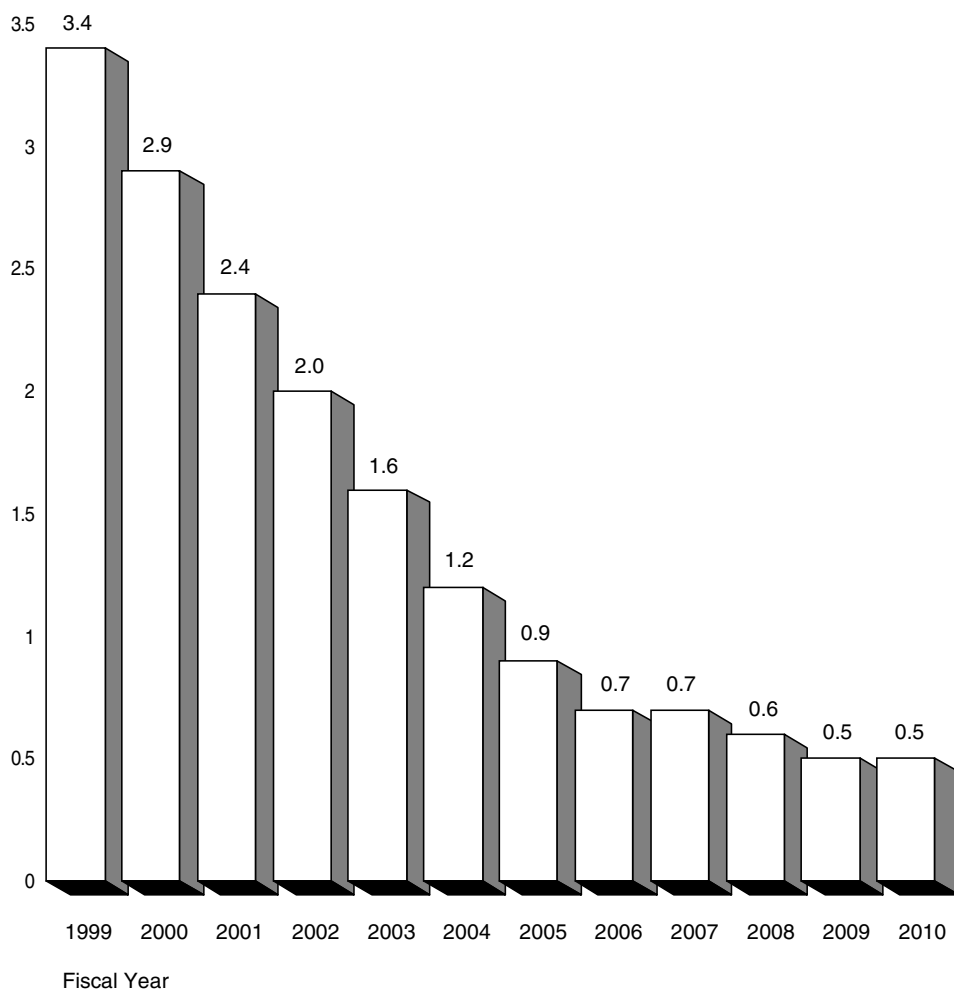
**Appendix I**  
**National Defense Stockpile Projected Cash**  
**Collections, Inventory, Uses of Funds, and**  
**Remaining Cash Balances**

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**Figure 4: Value of the Stockpile Inventory for Fiscal Years 1999 (Reported) and 2000-2010 (Projected)**

Dollars in billions



Source: Defense National Stockpile Center.

In August 1999, we reported that the Center projected a remaining inventory market value of \$1.36 billion at the end of fiscal year 2010. The Center now projects that about \$489.4 million will remain in inventory as of the end of fiscal year 2010. Of this amount, about \$6 million is not authorized for sale because it represents stockpile goals needed in a national emergency, including 50 tons of beryllium; 15,520 pounds of quartz; and 300 pounds of mica. The Center projects that the remaining material, about \$483 million, is authorized materials not yet sold or which cannot be sold due to either the market being unable to absorb the material or restrictions imposed by the Annual Materials Plan.<sup>3</sup>

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## **Fiscal Year 2000-2010 Activity**

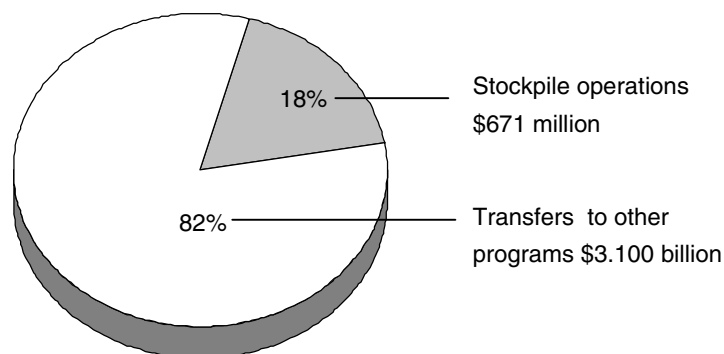
During fiscal years 2000-2010, the Center projects that about \$3.77 billion will be needed for estimated outlays, including stockpile operations and transfers. Figure 5 shows that most of the outlays from the stockpile transaction fund are for transfers with only a small amount used for stockpile operations.

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<sup>3</sup> The plan lists the proposed maximum quantity of each commodity that may be sold and/or bought in a given fiscal year. Before any transactions, the Congress must enact specific enabling legislation. After receiving congressional authority, the Department of Defense develops the plan. The plan is coordinated with the Market Impact Committee, an interagency committee that advises the Department on the projected domestic and foreign economic effects of the proposed stockpile transactions. The plan is submitted to the Congress by February 15 of each year and, unless disapproved, becomes effective on October 1.

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**Figure 5: Allocation of the \$3.77 Billion of Projected Outlays for the Stockpile Transaction Fund for Fiscal Years 2000-2010**



Source: Defense National Stockpile Center.

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## Stockpile Operations

The Center projects that about \$670 million in total will be needed to fund stockpile operations for the 11-year period over fiscal years 2000-2010. The Center or another activity to which operations are transferred at a later date would incur these costs. The Center projects that outlays for stockpile operation peak at \$74.2 million in fiscal year 2000 and level off at about \$54.7 million in fiscal years 2007 through 2010. Center officials stated that although the stockpile program will be downsized in the future, the Center has adopted a conservative approach to estimating operating outlays and projects the outlays to remain at \$54.7 million for the fiscal years 2007 through 2010.

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## Transfers From the Transaction Fund to Other Government Programs

Over fiscal years 2000-2010, the Center projects that \$3.10 billion will be transferred from the transaction fund to other government activities, including other agencies and to the general fund of the Treasury. There are several major transfer programs:<sup>4</sup>

- transfers to the services,
- transfers to the Health and Human Services program, and
- transfers to the general fund of the Treasury.

Transfers to the services are authorized annually. Transfers under the other programs have been mandated under law and are to occur over many years in the future. Each is discussed below.

### Transfers to the Services

About \$150 million in total has been transferred annually from the transaction fund to the military services. The Army, the Navy, and the Air Force each receive \$50 million annually under various public laws.<sup>5</sup> There are no specific materials that must be sold for this transfer program. The Center projects that transfers to the services remain constant at \$150 million for fiscal years 2000-2010.<sup>6</sup> A total of \$1.65 billion will be transferred over this period.

### Health and Human Services Program

The Health and Human Services Program consists of the sale of specific materials whose revenues are deposited in the transaction fund and subsequently transferred to both the program and to the general fund of the Treasury over a 7-year period for fiscal years 1999-2005. Funds transferred to the program (not the Treasury) are to be credited in the manner determined by the Secretary of the Department of Health and Human

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<sup>4</sup> In addition to these programs that affect the transaction fund there is a Titanium Sponge Transfer Program. This program consists of the transfer of titanium to the Army without charge. In each of the fiscal years 1996 through 2003, up to 250 tons of titanium sponge are to be transferred to the Army for use in the weight reduction portion of the main battle tank upgrade program. The Army pays transportation and related costs incurred in connection with the transfer. The Center estimates that the total value of the Titanium Program transfer is about \$7 million.

<sup>5</sup> Transfers to the services are authorized under annual authorization legislation. All the transfers to other government departments, for example, the transfers to the Departments of the Treasury and Health and Human Services, are authorized by legislation and cover more than 1 fiscal year.

<sup>6</sup> According to Center officials, since this transfer requires an annual authorization and appropriation, there is no guarantee that transfers will be made beyond fiscal year 2002.

Services to the Federal Hospital Insurance Trust Fund and the Federal Supplementary Medical Insurance Trust Fund. The Center projects that a total of \$89 million will be transferred to the program during fiscal years 2000-2003.

## Transfers to the Treasury

The Center projects that under four mandated transfer programs, about \$1.36 billion will be collected from sales of stockpile materials and subsequently transferred to the general fund of the Treasury during fiscal years 2000-2010. These multiyear mandated transfer programs and the amounts to be transferred are as follows:

- The Health and Human Services transfer program requires the sale of specific materials and transfers to the Treasury totaling \$396 million.
- The Foreign Military Sales program<sup>7</sup> requires the sale of specific stockpile materials and the transfer of \$430 million to the Treasury, which is to be used to offset the revenues lost as a result of an amendment to the program (P.L. 104-106 §4303(a)).<sup>8</sup>
- The Cobalt-Post Foreign Military Sales Program<sup>9</sup> requires the sale of cobalt in fiscal years 2003-2007, with total projected collections of \$235 million that are to be transferred to the general fund of the Treasury.
- The Spectrum Program requires the sale of any materials not restricted by use in the other transfer programs. Total projected collections of \$300 million are to be transferred to the general fund of the Treasury.<sup>10</sup> The program started in fiscal year 2000 and ends September 30, 2009.

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## Remaining Cash Balances

Table 1 shows the projected activity and beginning and ending balances for the transaction fund for fiscal years 2000-2010. The transaction fund is projected to peak at \$874 million at the end of fiscal year 2003. Starting in

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<sup>7</sup>National Defense Authorization Act for Fiscal Year 1997 (P.L. 104-201, Sept. 23, 1996, as amended in P.L. 105-65, Oct. 5, 1999).

<sup>8</sup>The program started in fiscal year 1997 and requires total receipts of \$720 million during the 10-fiscal year period ending September 30, 2006.

<sup>9</sup>National Defense Authorization Act for Fiscal Year 1998 (P.L. 105-85, §3305, as amended by P.L. 106-65). It is called the Cobalt-Post Foreign Military Sales program because cobalt is to be sold under the Foreign Military Sales program before being sold under this program.

<sup>10</sup>National Defense Authorization Act for Fiscal Year 2000 (P.L. 106-65, § 3402).

**Appendix I**  
**National Defense Stockpile Projected Cash**  
**Collections, Inventory, Uses of Funds, and**  
**Remaining Cash Balances**

fiscal year 2004, the projected transaction fund balance declines until it is depleted in fiscal year 2010 and shows a projected shortfall of \$48 million.

**Table 1: Projected Beginning Balances, Collections, Outlays, and Ending Balances for the Transaction Fund for Fiscal Years 2000-2010**

Dollars in millions											
	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Beginning cash balance <sup>a</sup>	\$752	\$823	\$858	\$854	\$874	\$856	\$816	\$661	\$473	\$299	\$111
Collections	465	467	427	419	371	340	218	91	71	57	45
Outlays	-393	-432	-432	-399	-389	-380	-373	-279	-245	-245	-205
Ending cash balance	\$823	\$858	\$854	\$874	\$856	\$816	\$661	\$473	\$299	\$111	\$-48

Note: The sum of the columns and rows may not agree with the totals due to rounding.

<sup>a</sup>Because of subsequent adjustments, the actual beginning balance as of October 1, 1999, was \$743.9 million.

Source: Defense National Stockpile Center.

Any significant changes in commodity prices could have an effect on collections from sales and deposits to the transaction fund.<sup>11</sup> Because the transfers are in fixed dollar amounts, increases in commodity prices would increase available transaction funds, while decreases in prices would cause a decline in the funds.

Current estimates of outlays for stockpile operations do not include potential outlays for stockpile site cleanup. Although the Center has undertaken efforts to determine the extent of the environmental cleanup effort, the Center has not projected the costs to clean up stockpile locations with hazardous materials.<sup>12</sup>

<sup>11</sup> In its comments in our prior report, the Department of Defense stated that future collections from sales are contingent on the fluctuating value of the marketable inventory.

<sup>12</sup> In its comments to our prior report, the Department of Defense stated that future environmental costs would substantially decrease the funds available for other projects.

# Comments From the Department of Defense



IN REPLY  
REFER TO

DEFENSE LOGISTICS AGENCY  
DEFENSE NATIONAL STOCKPILE CENTER  
8725 JOHN J. KINGMAN ROAD, SUITE 4616  
FT. BELVOIR, VIRGINIA 22060-6223

JAN 03 2001

Mr. Charles I. Patton, Jr.  
Director, Defense Capabilities and Management  
National Security and Internal Affairs Division  
U.S. General Accounting Office  
Washington, D.C. 20548

Dear Mr. Patton,

This is the Department of Defense (DoD) response to the General Accounting Office (GAO) draft report, "NATIONAL DEFENSE STOCKPILE: Improved Financial Plan Needed to Enhance Decision-making", dated November 21, 2000 (GAO Code 709419/OSD Case 3009).

If you have any questions, please contact Mr. Frank Taylor, (703) 767-6530.

Sincerely,

  
RICHARD J. CONNELLY  
Administrator

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GAO DRAFT REPORT DATED NOVEMBER 21, 2000  
(GAO CODE 709419) OSD CASE 3009

"NATIONAL DEFENSE STOCKPILE: IMPROVED FINANCIAL PLAN  
NEEDED TO ENHANCE DECISION-MAKING"

DEPARTMENT OF DEFENSE COMMENTS TO  
THE GAO RECOMMENDATIONS

**RECOMMENDATION:** In order to assist decision making regarding the use of funds in the transaction fund, the GAO recommended that the Administrator of the Defense National Stockpile Center prepare a revised long-range financial plan that reflects all probable and reasonably measurable stockpile outlays for the disposal of hazardous materials and environmental cleanup. The plan should include the currently known probable costs for all other stockpile sites. (p. 10/GAO Draft Report)

**DOD RESPONSE:** Concur. The long-range financial plan will be revised to reflect all probable and reasonably measurable stockpile outlays for the disposal of hazardous materials and environmental cleanup.

Technical Comments:

On page 9, the report discusses potential costs that may not be covered by the Defense Environmental Restoration Account (DERA). We agree, but to be more precise, operational costs are funded by the NDS Transaction Fund whereas Comprehensive Environmental Response, Compensation & Liability Act (CERCLA) type clean up costs are funded by DERA monies. As the examples demonstrate, it is not always clear at the outset whether a given expenditure should be one or the other. In accordance with the foregoing, it is recommended that the text on page 9 of the penultimate sentence of the first paragraph of the draft report be changed to read: "However, according to Center officials, many costs cannot be funded by the environmental restoration accounts because legislation and implementing policy limit types of activities that can be funded."

On page 16, the assertion is made that the Center projects that transfers to the services remain constant at \$150 million for fiscal years 2000-2010. The decision to reflect the transfers in the President's Budget Submissions is made at the OUSD(C) level and is considered during the Fall Budget review. Currently, a transfer of \$150 million is being requested for FY 2002 but none is being requested for FY 2003 even though both years were considered during the current review. There is no guarantee that transfers would be made past FY 2002.

Now on p. 9.



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